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'I' ITEM NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee (Part 2)
Subject: Proposal for a Decision of the European Parliament and the Council on providing macro-financial assistance to the Arab Republic of Egypt
– Mandate for negotiations with the European Parliament

1. On 18 March 2024 the Commission submitted to the Council a proposal for a Decision of the European Parliament and of the Council on providing macro-financial assistance to the Arab Republic of Egypt (ST 7917/24).
2. The draft Decision is based on Article 212(2) of the Treaty on the Functioning of the European Union (ordinary legislative procedure).
3. The Working Party of Financial Counsellors discussed the proposal at its meetings on 7 May 2024, 3 December 2024, 17 January 2025, 3 February 2025 and 25 March 2025. On 1 April 2025, the Working Party of Financial Counsellors agreed on the text in the Annex to this note, endorsing the Commission's proposal without amendments.
4. The European Parliament adopted its negotiating mandate at the plenary session on 1 April 2025, and the proposal was referred to the Committee on International Trade to start interinstitutional negotiations.

5. In view of the above, it is suggested that the Committee of Permanent Representatives:
- agree the negotiating mandate to take over the text of the Commission's proposal without amendments for a Decision of the European Parliament and of the Council on providing macro-financial assistance to the Arab Republic of Egypt, as set out in the Annex to this note;
 - invite the Presidency to start negotiations with the European Parliament, on the basis of this mandate, with a view to reaching agreement at first reading.
6. In accordance with the approach to legislative transparency endorsed by Coreper on 14 July 2023, and in full consistency with Regulation (EC) 1049/2001 and the Council's Rules of Procedure, the text of the mandate thus agreed will be made public unless the Permanent Representatives Committee objects.
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2024/0071 (COD)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
on providing macro-financial assistance to the Arab Republic of Egypt

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 212 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) Relations between the European Union and the Arab Republic of Egypt ('Egypt') are developed within the framework of the EU-Egypt Association Agreement, in force since 2004. The EU and Egypt adopted the latest EU-Egypt Partnership Priorities (2021-2027) at the ninth EU-Egypt Association Council on 19 June 2022. The Partnership Priorities reconfirm the joint aim to address common challenges facing the EU and Egypt, promote joint interests and guarantee long-term stability and sustainable development on both sides of the Mediterranean. The shared commitment to the universal values of democracy, rule of law and respect for human rights continues to underpin the Partnership Priorities, as also reflected in the EU-Egypt Multi-Annual Indicative Programme for the period of 2021-2027.
- (2) The Partnership Priorities reflect the shared commitment of the EU and Egypt to reinforce cooperation in support of Egypt's 'Sustainable Development Strategy Vision 2030' and the EU's determination to act on renewed impetus to strengthen the partnership with its Southern Neighbourhood. Namely, in the European Council Conclusions of 10-11 December 2020¹, the EU stated its strategic priority for a democratic, more stable, greener and more prosperous Southern Neighbourhood as a strategic priority. The EU Agenda for the Mediterranean and its Economic and Investment Plan for the Southern Neighbours set out in the EU Joint Communication on the Southern Neighbourhood of 9 February 2021 present the EU's objectives to achieve long-term, sustainable socioeconomic recovery and resilience and to advance the twin green and digital transitions in the region.
- (3) In line with the Partnership Priorities, the EU and Egypt are committed to ensuring accountability, the rule of law, the full respect of human rights, fundamental freedoms, promoting democracy, gender equality and equal opportunities as constitutional rights of all their citizens. These commitments contribute to the advancement of the partnership and to Egypt's sustainable development and stability. The increased and constructive engagement between the EU and Egypt in the last period has opened the path to more meaningful dialogue on human rights related issues. The subcommittee on Political Matters, Human Rights and Democracy, International and Regional issues of December 2022 and the Association Committee of May 2023 provided the institutional platforms to exchange on an array of human rights issues, which the EU would like to continue and build on. The improvement of the human rights situation in Egypt will have a positive impact on EU-Egypt relations.

¹ European Council meeting, Brussels, 10-11 December 2022, EUCO 22/10, <https://www.consilium.europa.eu/en/press/press-releases/2020/12/11/european-council-conclusions-10-11-december-2020/>

- (4) Assistance to Egypt is funded mainly through the new Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI-GE). The Union's indicative allocation for Egypt under the NDICI for the first period (2021-2024) of the Multiannual Indicative Programme (MIP) is EUR 240 million. This is in addition to the ongoing cooperation portfolio of EUR 1.3 billion and other budget support and emergency measures in response to the pandemic and Russia's war on Ukraine amounting to EUR 307 million. The partnership priorities for 2021-2027 are set out in the EU-Egypt MIP, which has been prepared in close consultation with all relevant stakeholders, and cover three broad areas: i) Sustainable Modern Economy and Social Development; ii) Partnering in Foreign Policy, and iii) Enhancing Stability. The NDICI instruments replaces the European Neighbourhood Instrument (ENI) under which the EU's bilateral assistance to Egypt for the period 2014 – 2020 amounted to EUR 756 million.
- (5) The EU recognises Egypt's key role for regional security and stability. Terrorism, organised crime and conflicts are common threats against our security and the social fabric of nations across both sides of the Mediterranean. Therefore, the EU and Egypt have a common interest in strengthening cooperation highlighted in the Partnership Priorities, in full compliance with international law, including human rights and international humanitarian law.
- (6) Recalling the geo-political challenges, such as the consequences of Hamas terrorist attacks across Israel on 7 October 2023 as well as the conflict in Sudan, and the strategic importance of Egypt as the largest country in the region and a pillar of stability for the whole Middle East, the Union is embarking on concluding a Strategic and Comprehensive partnership with Egypt as outlined in the Joint Declaration.
- (7) The objective of the Strategic and Comprehensive Partnership with Egypt is to elevate the EU-Egypt political relations to a strategic partnership and enable Egypt to fulfil its key role of providing stability in the region. The partnership aims to contribute to support Egypt's macroeconomic resilience and enable the implementation of ambitious socio-economic reforms in a manner that complements and reinforces the reform process foreseen under the IMF programme for Egypt. As outlined in the Joint Declaration, the partnership will address a wide set of policy measures clustered across six pillars of intervention, namely: political relations; economic stability; investment and trade; migration; security and law enforcement cooperation; demography and human capital.

- (8) Underpinning the partnership will be a financial package of EUR 7.4 billion consisting of short- and longer-term support for the necessary macro-fiscal and socio-economic reform agenda, as well as increased amounts available to support investments in Egypt and targeted support for the implementation of the different strategic priorities. Part of the support package is the EU MFA package of up to EUR 5 billion in loans, composed of two MFA operations, one short-term for up to EUR 1 billion and a regular, more medium-term one for up to EUR 4 billion, financial instruments, such as guarantees and blending instruments, aimed at mobilising public and private investments with the objective of generating substantial new investments. This will be complemented by programmes to support specific priorities under the Strategic and Comprehensive Partnership through individual projects and technical assistance implemented under the Neighbourhood, Development and International Cooperation Instrument².
- (9) Egypt's macro-fiscal situation has faced significant challenges and deteriorated substantially over recent months, as external pressures have intensified and public debt has increased further, with substantial downside risks to the economic outlook persisting. The repercussions of Russia's war on Ukraine and of Hamas terrorist attacks against Israel have led to protracted capital outflows and lower foreign currency receipts, notably due to sharply falling income from tourism and Suez Canal proceeds. This is particularly challenging amid Egypt's difficult fiscal situation, which is characterised by constant fiscal deficits and high and growing debt to GDP ratios.
- (10) Egypt made considerable reform efforts during its engagement with the IMF in 2016-2021. Reforms included a significant currency devaluation, accompanied by monetary policy reforms focused on an inflation target corridor. Fuel subsidy reform was coupled with a significant strengthening of a targeted social transfer system. Public finance management was strengthened by developing medium-term revenue and debt management strategies. The authorities also began improving the governance of state-owned enterprises (SOEs).
- (11) After the adoption of a follow-up IMF programme in December 2022, reform progress was less noticeable, although Egypt has implemented steps to level the playing field between public and private companies through a law to abolish tax privileges of SOEs, albeit with exemptions on the basis of national security, and through the adoption of a state ownership policy, aiming at reducing the presence of the state in the economy, which remains large and distorting despite recent limited progress and clarifying the rationale of continued state involvement in certain strategic sectors. However, Egypt did not implement its commitment to make the currency durably flexible in 2023, leading to a largely stable official exchange rate and a substantial parallel currency market with a significantly depreciated and highly volatile exchange rate. This fragmentation weighed heavily on foreign investment and domestic business activity.

² Established by Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, amending and repealing Decision No 466/2014/EU and repealing Regulation (EU) 2017/1601 and Council Regulation (EC, Euratom) No 480/2009 (OJ L 209, 14.6.2021, p. 1)

- (12) Egypt re-engaged with the IMF in early 2024 and reached a staff-level agreement on 6 March 2024 on a revamped Extended Fund Facility programme scaled up to USD 8 billion. The new programme is expected to be adopted by IMF Executive Board decision in March 2024 and aims to address the areas of 1) credible exchange rate flexibility, 2) sustainable tightening of monetary policy, 3) fiscal consolidation to preserve debt sustainability, 4) a new framework to rein in infrastructure spending, 5) providing adequate levels of social spending to protect vulnerable groups, and 6) implementation of the State Ownership Policy and reforms to level the playing field. Together with the staff level agreement's signature, Egypt also enacted a flexibilisation of the exchange rate, and raised the central bank's key policy rate by a sizeable 600 basis points, in line with the IMF programme's priorities.
- (13) In view of a worsening economic situation and outlook clouded by substantial downside risks in relation to ongoing external shocks, Egypt requested complementary macro-financial assistance from the Union on 12 March 2024.
- (14) Given that Egypt is a country covered by the European Neighbourhood Policy, it should be considered to be eligible to receive macro-financial assistance from the Union.
- (15) The Union's macro-financial assistance should be an exceptional instrument of untied and undesignated balance-of-payments support, which aims at addressing the beneficiary's immediate external financing needs and should underpin the implementation of a policy programme containing strong immediate adjustment and structural reform measures designed to improve the balance-of-payments position
- (16) Given that there is still a significant residual external financing gap in Egypt's balance of payments over and above the resources provided by the IMF and other multilateral institutions, the Union macro-financial assistance to be provided to Egypt is, under the current exceptional circumstances, considered to be an appropriate response to Egypt's request for support to the economic stabilisation, in conjunction with the IMF programme. The Union's macro-financial assistance package, including the MFA of up to EUR 4 billion under this proposal, would support the economic stabilisation and the structural reform agenda of Egypt, supplementing resources made available under the IMF's financial arrangement.
- (17) The Union's macro-financial assistance should aim to support the restoration of a sustainable external financing situation for Egypt thereby supporting its economic and social development.

- (18) The determination of the amount of the Union's macro-financial assistance is based on a complete quantitative assessment of Egypt's residual external financing needs and takes into account its capacity to finance itself with its own resources, in particular the international reserves at its disposal. The Union's macro-financial assistance is part of an international joint effort, effectively complementing the programmes and resources provided by the IMF and the World Bank. The determination of the amount of the assistance also takes into account expected financial contributions from multilateral donors and the need to ensure fair burden sharing between the Union and other donors, as well as the pre-existing deployment of the Union's other external financing instruments in Egypt and the added value of the overall Union involvement.
- (19) The Commission should ensure that the Union's macro-financial assistance is legally and substantially in line with the key principles, objectives and measures taken within the different areas of external action and with other relevant Union policies.
- (20) The Union's macro-financial assistance should support the Union's external policy towards Egypt. The Commission services and the European External Action Service (EEAS) should work closely together throughout the macro-financial assistance operation in order to coordinate and ensure the consistency of the Union external policy.
- (21) The Union's macro-financial assistance should support Egypt's commitment to foster values shared with the Union, including democracy, the rule of law, good governance, respect for human rights, sustainable development and poverty reduction, as well as its commitment to the principles of open, rules-based and fair trade.
- (22) A pre-condition for granting the Union's macro-financial assistance to Egypt should be that the country continues to make concrete and credible steps towards respecting effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights. In addition, the specific objectives of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance management systems, the governance and supervision of the financial sector in Egypt and promote structural reforms aimed at supporting sustainable and inclusive growth, decent employment creation and fiscal consolidation. The fulfillment of the pre-condition and the achievement of the specific objectives should be regularly monitored by the Commission services and the European External Action Service.

- (23) In order to ensure that the Union's financial interests linked to the Union's macro-financial assistance are protected efficiently, Egypt should take appropriate measures relating to the prevention of, and fight against, fraud, corruption and any other irregularities linked to the assistance. In addition, a loan agreement to be concluded between the Commission and the Egyptian authorities should contain provisions authorising European Anti-Fraud Office (OLAF) to carry out investigations, including on-the-spot checks and inspections, in accordance with the provisions and procedures laid down in Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council³ and Council Regulation (Euratom, EC) No 2185/96⁴, the Commission and the Court of Auditors to carry out audits and the European Public Prosecutor's Office to exercise its competences with regard to the provision of the Union's macro-financial assistance during and after its availability period
- (24) Release of the Union's macro-financial assistance is without prejudice to the powers of the European Parliament and the Council as budgetary authority.
- (25) The amounts of the provision required for macro-financial assistance in the form of loans should be consistent with the budgetary appropriations provided for in the multiannual financial framework.
- (26) The Union's macro-financial assistance should be managed by the Commission. In order to ensure that the European Parliament and the Council are able to follow the implementation of this Decision, the Commission should regularly inform them of developments relating to the assistance and provide them with relevant documents.
- (27) In order to ensure uniform conditions for the implementation of this Decision, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council⁵.

³ Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1).

⁴ Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).

⁵ Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13).

- (28) The Union's macro-financial assistance should be subject to economic policy conditions, to be laid down in a Memorandum of Understanding. In order to ensure uniform conditions of implementation and for reasons of efficiency, the Commission should be empowered to negotiate such conditions with the Egyptian authorities under the supervision of the committee of representatives of the Member States in accordance with Regulation (EU) No 182/2011. Under that Regulation, the advisory procedure should, as a general rule, apply in all cases other than as provided for in that Regulation. Considering the potentially important impact of assistance of more than EUR 90 million, it is appropriate that the examination procedure be used for operations above that threshold. Considering the amount of the Union's macro-financial assistance to Egypt, the examination procedure should apply to the adoption of the Memorandum of Understanding, and to any reduction, suspension or cancellation of the assistance.

HAVE ADOPTED THIS DECISION:

Article 1

1. The Union shall make macro-financial assistance of a maximum amount of up to EUR 4 billion available to Egypt ("the Union's macro-financial assistance"), with a view to supporting Egypt's economic stabilisation and a substantive reform agenda. The release of the Union's macro-financial assistance is subject to the approval of the Union budget for the relevant year by the European Parliament and the Council. The assistance shall contribute to covering Egypt's balance of payments needs as identified in the IMF programme.
2. In order to finance the Union's macro-financial assistance, the Commission shall be empowered, on behalf of the Union, to borrow the necessary funds in the capital markets or from financial institutions and to on-lend them to Egypt.
3. The release of the Union's macro-financial assistance shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the IMF and Egypt, and with the key principles and objectives of economic reforms set out in the EU-Egypt Association Agreement.

The Commission shall regularly inform the European Parliament and the Council of developments regarding the Union's macro-financial assistance, including disbursements thereof, and shall provide those institutions with the relevant documents in due time.

4. The Union's macro-financial assistance shall be made available starting on the first day after the entry into force of the Memorandum of Understanding referred to in Article 3(1) for a period of two and a half years.
5. Where the financing needs of Egypt decrease fundamentally during the period of the disbursement of the Union's macro-financial assistance compared to the initial projections, the Commission, acting in accordance with the examination procedure referred to in Article 7(2), shall reduce the amount of the assistance or suspend or cancel it.

Article 2

1. A pre-condition for granting the Union's macro-financial assistance shall be that Egypt continues to make concrete and credible steps towards respecting effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights.
2. The Commission services and the European External Action Service shall monitor the fulfilment of this pre-condition throughout the life-cycle of the Union's macro-financial assistance.
3. Paragraphs 1 and 2 shall be applied in accordance with Council Decision 2010/427/EU⁶.

Article 3

1. The Commission, in accordance with the examination procedure referred to in Article 7(2), shall agree with the Egyptian authorities on clearly defined economic policy and financial conditions, focusing on structural reforms and sound public finances, to which the Union's macro-financial assistance is to be subject, to be laid down in a Memorandum of Understanding ("the Memorandum of Understanding") which shall include a timeframe for the achievement of those reforms. The economic policy and financial conditions set out in the Memorandum of Understanding shall be consistent with the agreements or understandings referred to in Article 1(3), including the macroeconomic adjustment and structural reform programmes implemented by Egypt with the support of the IMF.
2. The conditions referred to in paragraph 1 shall aim, in particular, at enhancing the efficiency, transparency and accountability of the public finance management systems in Egypt, including for the use of the Union's macro-financial assistance. Progress in mutual market opening, the development of rules-based and fair trade, and other priorities in the context of the Union's external policy shall also be duly taken into account when designing the policy measures. Progress in attaining those objectives shall be regularly monitored by the Commission.
3. The detailed financial terms of the Union's macro-financial assistance shall be laid down in a loan agreement to be concluded between the Commission and the Egyptian authorities ("the Loan Agreement").
4. The Commission shall verify, at regular intervals, that the conditions referred to in Article 4(3) continue to be met, including whether the economic policies of Egypt are in accordance with the objectives of the Union's macro-financial assistance. For that verification, the Commission shall coordinate closely with the IMF and the World Bank, and, where necessary, with the European Parliament and the Council.

⁶ Council Decision 2010/427/EU of 26 July 2010 establishing the organisation and functioning of the European External Action Service (OJ L 201, 3.8.2010, p. 30).

Article 4

1. Subject to the conditions in paragraph 3, the Union's macro-financial assistance shall be made available by the Commission in instalments. The size of each instalment shall be laid down in the Memorandum of Understanding referred to in Article 3. An instalment may be disbursed in one or more tranches.
2. The amounts of the Union's macro-financial assistance provided in the form of loans shall be provisioned, where required, in accordance with Regulation (EU) 2021/947 of the European Parliament and of the Council.
3. The Commission shall decide on the release of the instalments subject to the fulfilment of the following conditions:
 - (a) the pre-condition set out in Article 2(1);
 - (b) a continuous satisfactory track record of implementing a policy programme that contains strong adjustment and structural reform measures supported by a non-precautionary IMF credit arrangement;
 - (c) the satisfactory implementation of the economic policy conditions and financial conditions agreed in the Memorandum of Understanding.

The release of the second instalment shall not, in principle, take place earlier than three months after the release of the first instalment. The release of the third instalment shall not, in principle, take place earlier than three months after the release of the second instalment.

4. Where the conditions in paragraph 3 are not met, the Commission shall temporarily suspend or cancel the disbursement of the Union's macro-financial assistance. In such cases, it shall inform the European Parliament and the Council of the reasons for that suspension or cancellation.
5. The Union's macro-financial assistance shall be disbursed to the Central Bank of Egypt. Subject to the provisions to be agreed in the Memorandum of Understanding, including a confirmation of residual budgetary financing needs, the Union funds may be transferred by the Central Bank of Egypt to the Egyptian Ministry of Finance as the final beneficiary.

Article 5

- (1) In order to finance the support under the macro-financial assistance in the form of loans, the Commission shall be empowered, on behalf of the Union, to borrow the necessary funds on the capital markets or from financial institutions in accordance with Article 220a of Regulation (EU, Euratom) 2018/1046.
- (2) The Commission shall enter into a loan agreement with Egypt in respect of the amount referred to in Article 1. The detailed terms of the support under the MFA in the form of loans shall be laid down in a loan agreement in accordance with Article 220 of the Financial Regulation, to be concluded between the Commission and the Egyptian authorities. The loan agreement shall lay down the availability period and the detailed terms of the support under the macro-financial assistance in the form of loans, including in relation to the internal control systems. The loans shall be granted at terms that allow Egypt to repay the loan over a long period, including a possible grace period. The maximum duration of the loans shall be 35 years. The Commission shall inform the European Parliament and the Council of developments in the operations referred to in paragraph 3.

Article 6

1. The Union's macro-financial assistance shall be implemented in accordance with Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council⁷.
2. The implementation of the Union's macro-financial assistance shall be under direct management.
3. Before the implementation of the Union's macro-financial assistance, the Commission shall assess, by means of an operational assessment, the soundness of Egypt's financial arrangements, the administrative procedures, and the internal and external control mechanisms which are relevant to the assistance.

Article 7

1. The Commission shall be assisted by a committee. That committee shall be a committee within the meaning of Regulation (EU) No 182/2011.
2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

⁷ Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union and repealing Regulation (EC, Euratom) No 966/2012 (*OJ L 193, 30.07.2018, p. 1*).

Article 8

1. By 30 June of each year, the Commission shall submit to the European Parliament and to the Council a report on the implementation of this Decision in the preceding year, including an evaluation of that implementation. The report shall:
 - (a) examine the progress made in implementing the Union's macro-financial assistance;
 - (b) assess the economic situation and prospects of Egypt, as well as progress made in implementing the policy measures referred to in Article 3(1);
 - (c) indicate the connection between the economic policy reform measures laid down in the Memorandum of Understanding, Egypt's on-going economic and fiscal performance and the Commission's decisions to release the instalments of the Union's macro-financial assistance.
2. Not later than two years after the expiry of the availability period referred to in Article 1(4), the Commission shall submit to the European Parliament and to the Council an ex-post evaluation report, assessing the results and efficiency of the completed Union's macro-financial assistance and the extent to which it has contributed to the aims of the assistance.

Article 9

This Decision shall enter into force on the day after its publication in the Official Journal of the European Union.

Done at Brussels,

For the European Parliament

The President

For the Council

The President
